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# Clean Water And Water Reclamation Bond Act Of 1988

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## Official Title and Summary Prepared by the Attorney General

CLEAN WATER AND WATER RECLAMATION BOND LAW OF 1988. This act provides for a bond issue of sixty-five million dollars (\$65,000,000) to provide funds for water pollution control and water reclamation projects and makes changes in the Water Conservation and Water Quality Bond Law of 1986 relating to loans and the Clean Water Bond Law of 1984 relating to accounts, funding for specified purposes, loans, and compliance with federal requirements.

## Final Vote Cast by the Legislature on SB 997 (Proposition 83)

Assembly: Ayes 65  
Noes 4

Senate: Ayes 32  
Noes 1

## Analysis by the Legislative Analyst

## Background

In the past, the costs to build local sewage treatment plants have been paid from a mix of federal, state, and local moneys. The federal government provided grants to public agencies to pay for up to 75 percent of the project costs. The remaining costs were paid from state and local funds. However, as of October 1988, the federal government is providing primarily loan funds, rather than grants, to build sewage treatment plants. This change shifts the costs of building the plants to local agencies and the state.

Since 1970, voters in California have approved four ballot measures to sell general obligation bonds totaling \$1.2 billion to help pay for the costs of building local sewage treatment plants and other related projects. As of June 1988, the State Water Resources Control Board had spent or committed all but \$257 million of the funds authorized by the previous bond acts. Of the \$257 million left, \$207 million primarily is for grants to communities of any size for building sewage treatment plants, \$36 million specifically is set aside for grants to small communities, and \$14 million is for loans to build water reclamation projects. Water reclamation projects are projects that allow wastewater to be reused in place of using additional fresh water. These projects include facilities that treat wastewater or transport it to a place where it can be reused.

The board estimates that small communities will need at least \$85 million to build or expand sewage treatment plants to meet current needs. In addition, local agencies will need about \$150 million to pay for water reclamation projects.

## Proposal

This measure authorizes the state to sell \$65 million of general obligation bonds to help local agencies build water reclamation projects and sewage treatment plants. General obligation bonds are backed by the state, meaning that the state will use its taxing power to assure that enough money is available to pay off the bonds. The state would use General Fund revenues to pay the principal and interest costs of the bonds. General Fund revenues

come primarily from the state corporate and personal income taxes and the state sales tax.

The bond money would be used for the following three purposes:

1. **Loans for Water Reclamation Projects—\$30 Million.** The State Water Resources Control Board would use these funds to make loans for up to 20 years to local agencies for water reclamation projects which cost less, overall, than developing new water supplies. Loans could be made for up to the full cost of designing and building projects. The interest rate on the loans would be subsidized by an amount equal to one-half of the interest rate that the state pays on the bonds. Thus, the state's interest cost would be more than the interest it collects on the loan repayments.

2. **Grants for Sewage Plants in Small Communities—\$25 Million.** The State Water Resources Control Board would give these grants to small communities (less than 3,500 people) with a financial hardship, as determined by the board. The grant could pay for up to 97.5 percent of the total costs of pollution studies and of planning, designing, and building the plants. No grant for any single project could exceed \$2 million.

3. **Guarantees for Local Agency Bonds—\$10 Million.** The State Water Resources Control Board could use these funds for a new program to guarantee proposed local agency bond issues for building sewage treatment plants. The state bond money could be used to pay off the local bonds, if the local agency is unable to make its payments. Any of the \$10 million not used for guarantees could be spent for the loans and grants discussed above as well as other purposes of the bond measure.

The measure would allow the board to use about \$3 million of the bond money for administrative costs to oversee the grant and loan programs. All of the bond moneys would be available to the board, except administrative costs would have to be appropriated by the Legislature. The measure also would allow the Legislature to appropriate bond moneys for research and planning activities relating to water quality. It is assumed that these costs would be paid from the \$3 million allowed for administrative costs.

In addition, the measure would make minor changes in the interest rate charged on loans provided in previous clean water bond acts and in the administration of bond funds under those acts. The principal change would be that bond money from the Clean Water Bond Law of 1984 could be used, as approved by the Legislature, in combination with federal funds to build sewage treatment works to protect residents of the City of San Diego and other areas along the California-Mexico border from water pollution originating from Mexico. No single project could receive more than \$10 million in loans from the board.

### Fiscal Effect

**Net Cost of Paying Off the Bonds.** The bonds authorized by this measure probably would be paid off over a period of about 20 years, and would be a responsibility of the state's General Fund. The total cost of the bonds would be about \$120 million, consisting of \$65 million for principal and \$55 million for interest.

However, because the loans would be repaid (with a subsidized rate of interest), the *net* state cost would be about \$82 million, or an average of about \$4 million per year. (The net state cost would consist of \$68 million for the bonds used for grants, bond guarantees, and administrative costs, and about \$14 million for the interest rate subsidy on the loans.)

This estimate assumes that all of the bonds would be sold at an average interest rate of 7.5 percent, and both the bonds and the loans would be paid off over the same 20-year period.

**Borrowing Costs for Other Bonds.** By increasing the amount which the state borrows, this measure may cause the state and local governments to pay more interest under other bond programs. These costs cannot be estimated.

**State Revenues.** The people who buy these bonds are not required to pay state income tax on the interest they earn. Therefore, if California taxpayers buy these bonds instead of making other taxable investments, the state would collect less tax. This loss of revenue cannot be estimated.

## Text of Proposed Law

This law proposed by Senate Bill 997 (Statutes of 1988, Ch. 47) is submitted to the people in accordance with the provisions of Article XVI of the Constitution.

This proposed law amends and adds sections to the Water Code; therefore, existing provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

### PROPOSED LAW

SEC. 2. Chapter 17 (commencing with Section 14050) is added to division 7 of the Water Code, to read:

#### CHAPTER 17. CLEAN WATER AND WATER RECLAMATION BOND LAW OF 1988

##### Article 1. General Provisions

14050. *This chapter shall be known and may be cited as the Clean Water and Water Reclamation Bond Law of 1988.*

14051. *The Legislature finds and declares as follows:*

(a) *Clean water is essential to the public health, safety, and welfare.*  
(b) *Clean water fosters the beauty of California's environment, the expansion of industry and agriculture, maintains fish and wildlife, and supports recreation.*

(c) *California's abundant lakes and ponds, streams and rivers, coastline, and groundwater are threatened with pollution, which could threaten public health and impede economic and social growth if left unchecked.*

(d) *The state's growing population has increasing needs for clean water supplies and adequate treatment facilities.*

(e) *It is of paramount importance that the limited water resources of the state be protected from pollution, conserved, and reclaimed whenever possible to ensure continued economic, community, and social growth.*

(f) *The chief cause of water pollution is the discharge of inadequately treated waste into the waters of the state.*

(g) *Local agencies have the primary responsibility for construction, operation, and maintenance of facilities to cleanse our waters.*

(h) *Rising costs of construction and technological changes have pushed the cost of constructing treatment facilities beyond the reach of many small communities.*

(i) *Because water knows no political boundaries, it is desirable for the state to contribute to construction of needed facilities in order to meet its obligations to protect and promote the health, safety, and welfare of its people and environment.*

(j) *The people of California have a primary interest in the development of facilities to reclaim waste water to supplement existing water supplies and to assist in meeting the future water needs of the state.*

(k) *A significant portion of the future water needs of California may be met by the use of reclaimed water.*

(l) *Local public agencies have the primary responsibility for the construction, operation, and maintenance of water reclamation facilities.*

(m) *Local public agencies need financial assistance to make cost-effective reclamation projects financially feasible.*

(n) (1) *It is also the intent of this chapter to provide special assistance to small communities to construct facilities necessary to*

*eliminate water pollution and public health hazards.*

(2) *It is also the intent of this chapter to provide funds for the design and construction of eligible water reclamation projects and for the development and implementation of programs and activities that lead to increased use of reclaimed water in California.*

14052. *As used in this chapter, the following words have the following meanings:*

(a) *"Board" means the State Water Resources Control Board.*

(b) *"Committee" means the Clean Water and Water Reclamation Finance Committee created by Section 14067.*

(c) *"Construction" has the same meaning as in the Federal Clean Water Act.*

(d) *"Eligible project" means a project for a small community for the construction of treatment works which is all of the following:*

(1) *Necessary to prevent pollution.*

(2) *Eligible for federal assistance pursuant to Title VI of the Federal Clean Water Act.*

(3) *Certified by the board as entitled to priority over other treatment works, and complies with applicable water quality standards, policies, and plans.*

(e) *"Eligible reclamation project" means a water reclamation project which is cost-effective when compared with the cost of alternative new freshwater supplies, and for which no federal assistance is currently available. These projects shall comply with applicable water quality standards, policies, and plans.*

(f) *"Federal assistance" means funds available to a local agency pursuant to the Federal Clean Water Act.*

(g) *"Federal Clean Water Act" or "federal act" means the Federal Water Pollution Control Act (33 U.S.C. Sec. 1251 et seq.) and any acts amendatory thereof or supplementary thereto.*

(h) *"Fund" means the 1988 Clean Water and Water Reclamation Fund created pursuant to Section 14055.*

(i) *"Local public agency" means any city, county, district, joint powers authority, or any other local public body or political subdivision of the state created by or pursuant to state law and involved with water or waste water management.*

(j) *"Municipality" has the same meaning as in the Federal Clean Water Act and also includes the state or any agency, department, or political subdivision thereof.*

(k) *"Small community" means a municipality with a population of 3,500 persons or less, or a reasonably isolated and divisible segment of a larger municipality encompassing 3,500 persons or less, with a financial hardship as defined by the board.*

(l) *"State grant" means a grant given to a qualifying small community eligible for federal assistance under Title VI of the Federal Clean Water Act.*

(m) *"State Water Pollution Control Revolving Fund" means a revolving fund created under state law for the purpose of issuing loans for the construction of eligible treatment works in accordance with the federal act.*

(n) *"Treatment works" has the same meaning as in the Federal*

Continued on page 118

### Argument in Favor of Proposition 83

The most effective way we have found to improve water quality in our streams, lakes, and estuaries is to properly treat waste water. One of California's most successful environmental programs for more than a decade has been a series of state bond issues used to make grants and loans to localities to build or improve their sewage treatment works. California's voters have approved every one of these bond issues by large margins.

Proposition 83 would allow the state to issue bonds to continue this program. It would allow grants totaling \$25 million to be made to smaller communities that have had the most difficulty achieving current water quality standards, because the costs of sewage treatment for each household are so high there. It would also allow the state to create a bond guarantee program so that localities of all sizes could borrow more cheaply to finance treatment works.

California is currently in a drought, which dramatizes the importance of conserving our water supply and of finding new ways to make the supply go further. A sensible and practical way to do that is to "reclaim" used and dirty water, process it to remove all impurities, and provide ways to reuse that water, especially for landscape and agricultural purposes. Several California communities have successfully reclaimed waste water for urban purposes in this way. Proposition 83 provides funding for \$35 million in loans to localities of all sizes for projects to treat and reclaim waste water.

**HENRY J. MELLO**  
*State Senator, 17th District*

**JIM COSTA**  
*Member of the Assembly, 30th District*  
*Chairman, Assembly Water, Parks and Wildlife Committee*

### Rebuttal to Argument in Favor of Proposition 83

Pollution of other people's property is a violation of individual rights.

Pesticides, industrial wastes, and other pollutants are not dumped into the water supply by average taxpayers—they are predominantly byproducts of commercial farming and industry. The control and cleanup of these effluents should be a necessary cost of doing business—and not a burden on the general taxpayer.

The solution to our water pollution problems is not more government programs and more government debt. Rather, property rights to clean water should be protected and enforced.

Strict liability for pollution damage should regulate water use, not government agencies and arbitrary government standards. **AS LONG AS TAXPAYERS BAIL OUT POLLUTERS, POLLUTION WILL CONTINUE TO GROW UNCHECKED.**

This bond issue makes the wrong person pay. Vote NO on Proposition 83.

**CHUCK OLSON**  
*Libertarian Candidate for State Senate, 11th District*

**MARK ROSS**  
*Environmental Activist*

**JOHN L. CORL**  
*Libertarian Party Central Committee, Contra Costa County*

## Argument Against Proposition 83

This bond issue would fund projects of three distinct types. One is to enable small communities with financial hardships to construct or upgrade sewage treatment facilities. The second is to treat agricultural drainage water to remove pesticides, etc. The third is to reclaim and recycle waste water.

Water reclamation may not be cost-effective for agricultural use or aesthetically acceptable for domestic use. Costs of treatment of agricultural wastes should be borne by the agricultural industry, who might then be motivated to reduce the use of pesticides. Small communities, many of them resort and/or retirement communities, should not expect taxpayers statewide to subsidize their lifestyles.

If bond financing is unavoidable, the local public agencies should present their proposals as bond issues for approval by the local voters. If approved, the bonds should be paid off by the local taxpayers, not taxpayers statewide.

In 1987-88 the state paid \$248 MILLION in interest alone (not including principal) on outstanding state bonds. The money lost by the state in bond interest costs would fund this program and also the safe drinking water and water conservation programs without these three ballot issues on this ballot.

Bonds are not the way to go. But if necessary to protect downstream water consumers from pollution the state

should fund these projects on a pay-as-you-go basis, not a bond issue.

Payments of principal and interest on outstanding bonds totaled \$515 MILLION in the 1987-88 budget. Bonds already authorized but not yet sold will add \$372 MILLION when sold. The nine bond issues on this ballot would add \$295 MILLION, for a total of \$1.1 BILLION each year. On a pay-as-you-go basis \$1.1 BILLION would finance all of the projects in the nine bond issues, schools, prisons, housing, etc. in three years.

By placing capital expenditures on the ballot as bond issues the Legislature postpones major costs to future years, leaving more room in the current budget for boondoggles with low priority or lacking popular support. The Legislature trots out the sacred cows on the ballot where the voter can see them, while hiding in the fine print of the budget the white elephants such as the legislative slush fund.

Interest income from state bonds is exempt from federal and state income taxes, a loophole for wealthy investors to avoid paying their fair share of taxes, thus shifting the tax burden to working people. By voting for these bonds you are voting for a higher share of federal and state taxes for yourself.

Vote NO on the water pollution bonds!

**WILLIAM McCORD**  
*Retired State Administrator*

## Rebuttal to Argument Against Proposition 83

Proposition 83 would allow the state to issue bonds to continue the state's successful program to treat urban waste water. The bonds could not be used to pay for treating agricultural drainage water. The opponent's argument is incorrect about that. The proposition does correct several old bond acts, to bring them into conformity with the new federal tax laws.

Proposition 83 would provide loans to localities to build water reclamation plants. These plants would treat sewage to a high standard, so it could be reused for landscaping and industrial purposes. Several California communities already reclaim water in this way, and it has proven to be a cost-effective way to make our existing water supply go further.

Proposition 83 would also finance grants to small communities to help pay for sewage treatment plants. The

grants could be made only in small rural places with evidence of real financial hardship. Wealthy resort and retirement communities need not apply.

Most of the money from Proposition 83 would be used to make loans, not grants. Local citizens and industries would pay the state back. Why should we use state bonds for this purpose, then? Because the State of California is large and well respected, and can borrow money more cheaply than can localities. At little cost or risk, we can save money for taxpayers in areas needing sewage treatment works. And we can make our state's waters cleaner. These are good reasons to vote for Proposition 83.

**HENRY J. MELLO**  
*State Senator, 17th District*

**JIM COSTA**  
*Member of the Assembly, 30th District  
Chairman, Assembly Water, Parks and Wildlife Committee*

of the total amount of bonds authorized to be expended for purposes of this section may be expended for this purpose. A loan for a feasibility study shall not decrease the maximum amount of any other loan which may be made under this section.

SEC. 3. Section 13999.3 of the Water Code is amended to read:

13999.3. (a) There is in the State Treasury the 1984 State Clean Water Bond Fund, which fund is hereby created. There shall be established in the fund a Clean Water Construction Grant Account for the purpose of implementing Section 13999.8, a Small Communities Assistance Account for the purpose of implementing Section 13999.9, a Water Reclamation Account for the purpose of implementing Section 13999.10 and a Water Conservation Account for the purpose of implementing Section 13999.11.

(b) From time to time, the board may modify existing accounts in the fund, or may establish other accounts in the fund, and in all other bond funds administered by the board, which the board determines are appropriate or necessary for proper administration.

SEC. 4. Section 13999.5 of the Water Code is amended to read:

13999.5. (a) The committee is hereby authorized and empowered to create a debt or debts, liability or liabilities, of the State of California, in the aggregate amount of three hundred twenty-five million dollars (\$325,000,000), in the manner provided in this chapter. The debt or debts, liability or liabilities, shall be created for the purpose of providing the fund to be used for the object and work specified in this section and in Sections 13999.6, 13999.8, 13999.9, 13999.10, 13999.11, and 13999.14.

(b) The board is authorized to enter into contracts with municipalities having authority to construct, operate, and maintain treatment works and reclamation projects, for grants and loans to the municipalities to aid in the construction of eligible projects and eligible water reclamation projects and may adopt rules and regulations necessary to carry out the provisions of this chapter.

(c) As approved by the Legislature annually in the Budget Act, the board may, by contract or otherwise, undertake plans, surveys, research, development, and studies necessary, convenient, or desirable to carry out the purposes of this division, and may prepare recommendations with regard thereto, including the preparation of comprehensive statewide or areawide studies and reports on the collection, treatment, and disposal of waste under a comprehensive cooperative plan.

(d) As approved by the Legislature annually in the Budget Act, the board may expend bond funds necessary for administration of this chapter.

(e) Not more than 5 percent of the money deposited in the fund total amount of the bonds authorized to be issued under this chapter may be used for purposes of subdivisions (c) and (d).

(f) As approved by the Legislature annually in the Budget Act, the department may direct grants and loans to any public agency or, by contract or otherwise, undertake plans, surveys, research, development, and studies necessary, convenient, or desirable to carry out voluntary, cost-effective capital outlay water conservation programs.

(g) The board may expend funds necessary to reimburse the General Obligation Bond Expense Revolving Fund pursuant to Section 16724.5 of the Government Code.

SEC. 5. Section 13999.10 of the Water Code is amended to read:

13999.10. (a) The sum of twenty-five million dollars (\$25,000,000) of

the money in the fund shall be deposited in the Water Reclamation Account and is appropriated for loans to municipalities for eligible water reclamation projects which will provide water for beneficial uses.

The board may loan a municipality up to 100 percent of the total eligible costs of design and construction of a reclamation project.

(b) Any contract for an eligible water reclamation project entered into pursuant to this section may include such provisions as determined by the board and shall include both of the following provisions:

(1) An estimate of the reasonable cost of the eligible water reclamation project.

(2) An agreement by the municipality to proceed expeditiously with, and complete, the eligible water reclamation project; commence operation of the project in accordance with applicable provisions of law; provide for payment of the municipality's share of the cost of the project, including principal and interest on any state loan made pursuant to this section; and, if appropriate, apply for and make reasonable efforts to secure federal assistance, other than that available pursuant to the federal Clean Water Act, for the state-assisted project.

(c) Loan contracts may not provide for a moratorium on payments of principal or interest.

(d) (1) Any loans made from the Water Reclamation Account shall be for a period of up to 25 years with an interest rate set annually by the board at 50 percent of the average interest rate paid by the state on general obligation bonds in the calendar year immediately preceding the year in which the loan agreement is executed. All principal and interest from loans shall be returned to the Water Reclamation Account for new loans. The interest rate for the loans shall be set at a rate equal to 50 percent of the interest rate paid by the state on the most recent sale of state general obligation bonds, with that rate to be computed according to the true interest cost method. When the interest rate so determined is not a multiple of one-tenth of 1 percent, the interest rate shall be set at the next higher multiple of one-tenth of 1 percent.

(2) All principal and interest from loans shall be returned to the Water Reclamation Account for new loans.

(e) Funds available under this section may be used for loans pursuant to subdivisions (f), (g), and (h) of Section 13999.8 if the Clean Water Construction Grant Account is depleted. All principal and interest on any such loans shall be repaid to the Water Reclamation Account.

(f) No single project may receive more than ten million dollars (\$10,000,000) from the board.

SEC. 6. Section 13999.17 is added to the Water Code, to read:

13999.17. (a) Notwithstanding any other provision of this chapter and to the extent permitted by federal and state law, the money in the fund may be used to rebate to the federal government all arbitrage profits required by the Federal Tax Reform Act of 1986 or amendment thereof or supplement thereto. To the extent that the money in the fund may not be used for that purpose due to restraints of federal or state law, any rebates required shall be paid from the General Fund or from other sources as required by the Legislature.

(b) Notwithstanding any other provision of law, rule, or regulation, the board may enter into contracts, or procure those services and equipment, which may be necessary to ensure prompt and complete compliance with any provisions relating to the fund imposed by either the Federal Tax Reform Act of 1986 or the federal act.

(d) Any contract entered into pursuant to this section may include such provisions as may be determined by the board, provided that any contract shall include the following provisions:

(1) An estimate of the reasonable cost of the eligible project.

(2) An agreement by the small community to proceed expeditiously with, and complete, the proposed eligible project, commence operation of the treatment works upon completion, and to properly operate and maintain the works in accordance with applicable provisions of law.

(e) Small communities eligible for a state grant may also apply for a loan from the State Water Pollution Control Revolving Fund for costs not covered by the grant.

14057. The sum of ten million dollars (\$10,000,000) of the money in the fund shall be available for transfer by the board to the Clean Water Bond Guarantee Fund and shall be available to the board to guarantee local agency bond issues pursuant to Article 2.5 (commencing with Section 13425) of Chapter 6. After January 1, 1990, the board may transfer any funds in the Clean Water Bond Guarantee Fund which have not been committed to guaranteeing local agency bond issues to the 1988 Clean Water and Water Reclamation Fund.

14058. (a) The sum of thirty million dollars (\$30,000,000) of the money in the fund shall be deposited in the Water Reclamation Account and, notwithstanding Section 13340 of the Government Code, is hereby continuously appropriated to the board for the purposes of this section.

(b) The board may enter into contracts with local public agencies having authority to construct, operate, and maintain water reclamation projects, for loans to aid in the design and construction of eligible water reclamation projects. The board may loan up to 100 percent of the eligible cost of design and construction of an eligible reclamation project.

(c) Any contract for an eligible water reclamation project entered into pursuant to this section may include such provisions as determined

## Proposition 83: Text of Proposed Law

Continued from page 25

Clean Water Act.

### Article 2. Clean Water and Water Reclamation Bond Program

14055. (a) The proceeds of bonds issued and sold pursuant to this chapter shall be deposited in the State Treasury to the credit of the 1988 Clean Water and Water Reclamation Fund, which is hereby created. There shall be established in the fund a Small Communities Grant Account for the purpose of implementing Section 14056 and a Water Reclamation Account for the purpose of implementing Section 14058.

(b) From time to time, the board may modify existing accounts in the fund, or may establish other accounts in the fund, and in all other bond funds administered by the board, which the board determines are appropriate or necessary for proper administration.

14056. (a) The sum of twenty-five million dollars (\$25,000,000) of the money in the fund shall be deposited in the Small Communities Grant Account and, notwithstanding Section 13340 of the Government Code, is hereby continuously appropriated for state grants to small communities for construction of treatment works eligible for assistance under Title VI of the federal act.

(b) The board may enter into grant contracts in accordance with this section with qualifying small communities having authority to construct, operate, and maintain treatment works to aid in the construction of eligible projects.

(c) The board may make grants to small communities in an amount on a sliding scale, based on a community's ability to pay, not to exceed 97½ percent of the total estimated cost of pollution studies, planning, design, and construction determined in accordance with applicable state laws and regulations. Total state assistance under this section shall not exceed two million dollars (\$2,000,000) for any single eligible project.

by the board and shall include both of the following provisions:

(1) An estimate of the reasonable cost of the eligible water reclamation project.

(2) An agreement by the local public agency to proceed expeditiously with, and complete, the eligible water reclamation project. Commence operation of the project in accordance with applicable provisions of law, and provide for the payment of the local public agency's share of the cost of the project, including principal and interest on any state loan made pursuant to this section.

(d) Loan contracts may not provide for a moratorium on payments of principal or interest.

(e) Any loans made from the fund may be for a period of up to 20 years. The interest rate for the loans shall be set at a rate equal to 50 percent of the interest rate paid by the state on the most recent sale of state general obligation bonds, with that rate to be computed according to the true interest cost method. When the interest rate so determined, is not a multiple of one-tenth of 1 percent, the interest rate shall be set at the next higher multiple of one-tenth of 1 percent.

(f) All money repaid to the state pursuant to any contract executed under this chapter shall be deposited in the General Fund as reimbursement for the payment of principal and interest on bonds authorized to be issued under this chapter.

14059. As approved by the Legislature annually in the Budget Act, the board may expend for the administration of this chapter not more than 5 percent of the amount of the bonds authorized to be issued under this chapter.

14060. As approved by the Legislature annually in the Budget Act, the board may, by contract or otherwise, undertake plans, surveys, research, development, and studies necessary, convenient, or desirable to carry out the purposes of this division, and may prepare recommendations with regard thereto, including the preparation of comprehensive statewide or areawide studies and reports on water reclamation and the collection, treatment, and disposal of waste under a comprehensive cooperative plan.

14061. The board may adopt rules, regulations, and guidelines necessary or appropriate to carry out this chapter.

#### Article 3. Fiscal Provisions

14065. Bonds in the total amount of sixty-five million dollars (\$65,000,000), exclusive of refunding bonds, or so much thereof as is necessary, may be issued and sold to provide a fund to be used for carrying out the purposes expressed in this chapter and to be used to reimburse the General Obligation Bond Expense Revolving Fund pursuant to Section 16724.5 of the Government Code. The bonds shall, when sold, be and constitute a valid and binding obligation of the State of California, and the full faith and credit of the State of California is hereby pledged for the punctual payment of both principal of, and interest on, the bonds as the principal and interest become due and payable.

14066. The bonds authorized by this chapter shall be prepared, executed, issued, sold, paid, and redeemed as provided in the State General Obligation Bond Law (Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the Government Code), and all of the provisions of that law apply to the bonds and to this chapter and are hereby incorporated in this chapter as though set forth in full in this chapter.

14067. (a) Solely for the purpose of authorizing the issuance and sale, pursuant to the State General Obligation Bond Law, of the bonds authorized by this chapter, the Clean Water and Water Reclamation Finance Committee is hereby created. For purposes of this chapter, the Clean Water and Water Reclamation Finance Committee is "the committee" as that term is used in the State General Obligation Bond Law. The committee consists of the Governor, the Controller, the Treasurer, the Director of Finance, and the Executive Director of the State Water Resources Control Board, or their designated representatives. A majority of the committee may act for the committee.

(b) For purposes of the State General Obligation Bond Law, the State Water Resources Control Board is designated the "board."

14068. Consistent with Section 602 of the federal act, the committee shall determine whether or not it is necessary or desirable to issue bonds authorized pursuant to this chapter in order to carry out the actions specified in Sections 14056, 14057, 14058, 14059, and 14060, and, if so, the amount of bonds to be issued and sold. Successive issues of bonds may be authorized and sold to carry out those actions progressively, and it is not necessary that all of the bonds authorized to be issued be sold at any one time.

14069. There shall be collected each year and in the same manner and at the same time as other state revenue is collected, in addition to the ordinary revenues of the state, a sum in an amount required to pay the principal of, and interest on, the bonds each year, and it is the duty of all officers charged by law with any duty in regard to the collection of the revenue to do and perform each and every act which is necessary to collect that additional sum.

14070. Notwithstanding Section 13340 of the Government Code, there is hereby appropriated from the General Fund in the State Treasury, for the purposes of this chapter, an amount that will equal the total of the following:

(a) The sum annually necessary to pay the principal of, and interest

on, bonds issued and sold pursuant to this chapter, as the principal and interest become due and payable.

(b) The sum which is necessary to carry out the provisions of Section 14071, appropriated without regard to fiscal years.

14071. For the purposes of carrying out this chapter, the Director of Finance may authorize the withdrawal from the General Fund of an amount or amounts not to exceed the amount of the unsold bonds which have been authorized by the committee to be sold for the purpose of carrying out this chapter. Any amounts withdrawn shall be deposited in the fund. Any moneys made available under this section shall be returned to the General Fund plus the interest that the amounts would have earned in the Pooled Money Investment Account from money received from the sale of bonds for the purpose of carrying out this chapter.

14071.5. The board may request the Pooled Money Investment Board to make a loan from the Pooled Money Investment Account, in accordance with Section 16312 of the Government Code, for the purposes of carrying out this chapter. The amount of the request shall not exceed the amount of the unsold bonds which the committee has, by resolution, authorized to be sold for the purpose of carrying out this chapter. The board shall execute those documents required by the Pooled Money Investment Board to obtain and repay the loan. Any amounts loaned shall be deposited in the fund to be allocated by the board in accordance with this chapter.

14072. All money deposited in the fund which is derived from premium and accrued interest on bonds sold shall be reserved in the fund and shall be available for transfer to the General Fund as a credit to expenditures for bond interest.

14073. The bonds may be refunded in accordance with Article 6 (commencing with Section 16780) of the State General Obligation Bond Law.

14074. (a) Notwithstanding any other provision of this chapter and to the extent permitted by federal and state law, the money in the fund may be used to rebate to the federal government all arbitrage profits required by the Federal Tax Reform Act of 1986 or any amendment thereof or supplement thereto. To the extent that the money in the fund may not be used for that purpose due to restraints of federal or state law, any rebates required shall be paid from the General Fund or other sources as the Legislature may require.

(b) Notwithstanding any other provision of law, or rule or regulation, the board may enter into contracts, or procure those services and equipment, which may be necessary to ensure prompt and complete compliance with any provisions relating to the fund imposed by either the Federal Tax Reform Act of 1986 or the federal act.

14075. The Legislature hereby finds and declares that, inasmuch as the proceeds from the sale of bonds authorized by this chapter are not "proceeds of taxes" as that term is used in Article XIII B of the California Constitution, the disbursement of these proceeds is not subject to the limitations imposed by that article.

SEC. 3. Section 13459 of the Water Code is amended to read:

13459. (a) The sum of seventy-five million dollars (\$75,000,000) of the money in the fund shall be deposited in the Agricultural Drainage Water Account is appropriated for expenditure in the 1986-87 fiscal year for loans to agencies to aid in the construction of drainage water management units for the treatment, storage, or disposal of agricultural drainage water and the purposes set forth in this section. The board may loan an agency up to 100 percent of the total eligible costs of design and construction of an eligible project. Loans made in the 1986-87 fiscal year may not be authorized sooner than 30 days after notification in writing of the necessity therefor to the chairperson of the committee in each house which considers appropriations, to the policy committee of the Assembly as designated by the Speaker of the Assembly and the policy committee of the Senate designated by the Senate Rules Committee, and the Chairperson of the Joint Legislative Budget Committee.

(b) Any contract for an eligible project entered into pursuant to this section may include such provisions as determined by the board and shall include, in substance, all of the following provisions:

(1) An estimate of the reasonable cost of the eligible project.

(2) An agreement by the agency to proceed expeditiously with, and complete, the eligible project; commence operation of the containment structures or treatment works upon completion and to properly operate and maintain the works in accordance with applicable provisions of law; provide for payment of the agency's share of the cost of the project, including principal and interest on any state loan made pursuant to this section; and, if appropriate, apply for and make reasonable efforts to secure federal assistance for the state-assisted project.

(c) All loans pursuant to this section are subject to all of the following provisions:

(1) Agencies seeking a loan shall demonstrate, to the satisfaction of the board, that an adequate opportunity for public participation regarding the loan has been provided.

(2) Any election held with respect to the loan shall include the entire agency except where the agency proposes to accept the loan on behalf of a specified portion, or portions, of the agency, in which case the referendum shall be held in that portion or portions of the agency only.

(3) Loan contracts may not provide a moratorium on payment of principal or interest.

(4) Loans shall be for a period of up to 20 years with an interest rate



set annually by the board at 50 percent of the interest rate computed by the true interest cost method on bonds most recently issued pursuant to this chapter. The interest rate for the loans shall be set at a rate equal to 50 percent of the interest rate paid by the state on the most recent sale of state general obligation bonds, with that rate to be computed according to the true interest cost method. When the interest rate so determined is not a multiple of one-tenth of 1 percent, the interest rate shall be set at the next higher multiple of one-tenth of 1 percent. The interest rate set for each contract shall be applied throughout the contract's repayment period. There shall be a level annual repayment of principal and interest on loans.

(5) The board in considering eligible projects shall give preference to technologies which treat drainage water where the board finds that the technology is readily available and economically feasible for the agency.

(6) No single project may receive more than twenty million dollars (\$20,000,000) in loan proceeds from the board.

(d) The board may make loans to local agencies, at the interest rates authorized under this section and under any terms and conditions as may be determined necessary by the board, for purposes of financing feasibility studies of projects potentially eligible for funding under this section. No single potential project shall be eligible to receive more than one hundred thousand dollars (\$100,000), and not more than 3 percent of the total amount of bonds authorized to be expended for purposes of this section may be expended for this purpose. A loan for a feasibility study shall not decrease the maximum amount of any other loan which may be made under this section.

SEC. 4. Section 13999.3 of the Water Code is amended to read:

13999.3. (a) There is in the State Treasury the 1984 State Clean Water Bond Fund, which fund is hereby created. There shall be established in the fund a Clean Water Construction Grant Account for the purpose of implementing Section 13999.8, a Small Communities Assistance Account for the purpose of implementing Section 13999.9, a Water Reclamation Account for the purpose of implementing Section 13999.10 and a Water Conservation Account for the purpose of implementing Section 13999.11.

(b) From time to time, the board may modify existing accounts in the fund, or may establish other accounts in the fund, and in all other bond funds administered by the board, which the board determines are appropriate or necessary for proper administration.

SEC. 5. Section 13999.5 of the Water Code is amended to read:

13999.5. (a) The committee is hereby authorized and empowered to create a debt or debts, liability or liabilities, of the State of California, in the aggregate amount of three hundred twenty-five million dollars (\$325,000,000), in the manner provided in this chapter. The debt or debts, liability or liabilities, shall be created for the purpose of providing the fund to be used for the object and work specified in this section and in Sections 13999.6, 13999.8, 13999.9, 13999.10, 13999.11, and 13999.14.

(b) The board is authorized to enter into contracts with municipalities having authority to construct, operate, and maintain treatment works and reclamation projects, for grants and loans to the municipalities to aid in the construction of eligible projects and eligible water reclamation projects and may adopt rules and regulations necessary to carry out the provisions of this chapter.

(c) As approved by the Legislature annually in the Budget Act, the board may, by contract or otherwise, undertake plans, surveys, research, development, and studies necessary, convenient, or desirable to carry out the purposes of this division, and may prepare recommendations with regard thereto, including the preparation of comprehensive statewide or areawide studies and reports on the collection, treatment, and disposal of waste under a comprehensive cooperative plan.

(d) As approved by the Legislature annually in the Budget Act, the board may expend bond funds necessary for administration of this chapter.

(e) Not more than 5 percent of the money deposited in the fund total amount of the bonds authorized to be issued under this chapter may be used for purposes of subdivisions (c) and (d).

(f) As approved by the Legislature annually in the Budget Act, the department may direct grants and loans to any public agency or, by contract or otherwise, undertake plans, surveys, research, development, and studies necessary, convenient, or desirable to carry out voluntary, cost-effective capital outlay water conservation programs.

(g) The board may expend funds necessary to reimburse the General Obligation Bond Expense Revolving Fund pursuant to Section 16724.5 of the Government Code.

SEC. 6. Section 13999.10 of the Water Code is amended to read:

13999.10. (a) The sum of twenty-five million dollars (\$25,000,000) of the money in the fund shall be deposited in the Water Reclamation Account and is appropriated for loans to municipalities for eligible water reclamation projects which will provide water for beneficial uses.

The board may loan a municipality up to 100 percent of the total eligible costs of design and construction of a reclamation project.

(b) Any contract for an eligible water reclamation project entered into pursuant to this section may include such provisions as determined by the board and shall include both of the following provisions:

(1) An estimate of the reasonable cost of the eligible water reclamation project.

(2) An agreement by the municipality to proceed expeditiously with, and complete, the eligible water reclamation project; commence operation of the project in accordance with applicable provisions of law; provide for payment of the municipality's share of the cost of the project, including principal and interest on any state loan made pursuant to this section; and, if appropriate, apply for and make reasonable efforts to secure federal assistance, other than that available pursuant to the federal Clean Water Act, for the state-assisted project.

(c) Loan contracts may not provide for a moratorium on payments of principal or interest.

(d) (1) Any loans made from the Water Reclamation Account shall be for a period of up to 25 years with an interest rate set annually by the board at 50 percent of the average interest rate paid by the state on general obligation bonds in the calendar year immediately preceding the year in which the loan agreement is executed. All principal and interest from loans shall be returned to the Water Reclamation Account for new loans. The interest rate for the loans shall be set at a rate equal to 50 percent of the interest rate paid by the state on the most recent sale of state general obligation bonds, with that rate to be computed according to the true interest cost method. When the interest rate so determined is not a multiple of one-tenth of 1 percent, the interest rate shall be set at the next higher multiple of one-tenth of 1 percent.

(2) All principal and interest from loans shall be returned to the Water Reclamation Account for new loans.

(e) Funds available under this section may be used for loans pursuant to subdivisions (f), (g), and (h) of Section 13999.8 if the Clean Water Construction Grant Account is depleted. All principal and interest on any such loans shall be repaid to the Water Reclamation Account.

(f) No single project may receive more than ten million dollars (\$10,000,000) from the board.

SEC. 7. Section 13999.17 is added to the Water Code, to read:

13999.17. (a) Notwithstanding any other provision of this chapter and to the extent permitted by federal and state law, the money in the fund may be used to rebate to the federal government all arbitrage profits required by the Federal Tax Reform Act of 1986 or any amendment thereof or supplement thereto. To the extent that the money in the fund may not be used for that purpose due to restraints of federal or state law, any rebates required shall be paid from the General Fund or from other sources as required by the Legislature.

(b) Notwithstanding any other provision of law, or rule or regulation, the board may enter into contracts, or procure those services and equipment, which may be necessary to ensure prompt and complete compliance with any provisions relating to the fund imposed by either the Federal Tax Reform Act of 1986 or the federal act.

SEC. 8. Section 13999.18 is added to the Water Code, to read:

13999.18. Notwithstanding any other provision of this chapter, and as approved by the Legislature, the board may share in the cost of the construction of treatment works under subdivision (b) of Section 510 of the Federal Water Quality Act of 1987. That participation may be approved only if the board determines that treatment works in Mexico, in conjunction with any defensive treatment works constructed under the Federal Water Pollution Control Act, are not sufficient to protect the residents of the City of San Diego and surrounding areas, including Imperial County, from water pollution originating in Mexico. No project in which the board participates shall receive more than ten million dollars (\$10,000,000) in loan proceeds from the board.

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Pooled Money Investment Account, from money received from the sale of bonds for the purpose of carrying out this part.

53176.5. The board may request the Pooled Money Investment Board to make a loan from the Pooled Money Investment Account, in accordance with Section 16312 of the Government Code, for purposes of carrying out the provisions of this chapter. The amount of the request shall not exceed the amount of unsold bonds which the committee has by resolution authorized to be sold for the purpose of carrying out this chapter. The board shall execute any documents which are required by the Pooled Money Investment Board to obtain and repay the loan. Any amounts loaned shall be deposited in the fund to be allocated to the

board in accordance with this chapter.

53177. All money deposited in the fund which is derived from premium and accrued interest on bonds sold shall be reserved in the fund and shall be available for transfer to the General Fund as a credit to expenditures for bond interest.

53178. The Legislature hereby finds and declares that, inasmuch as the proceeds from the sale of bonds authorized by this part are "proceeds of taxes" as that term is used in Article XIII B of the California Constitution, the disbursement of these proceeds is not subject to the limitations imposed by that article.